$25.00 ANNUALLY
40 LETTERS PER YEAR

DOW THEORY LETTERS

"THE MARKET AS INTERPRETED UNDER THE DOW THEORY"

RICHARD RUSSELL
125 EAST 93RD STREET
NEW YORK CITY 28

REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION

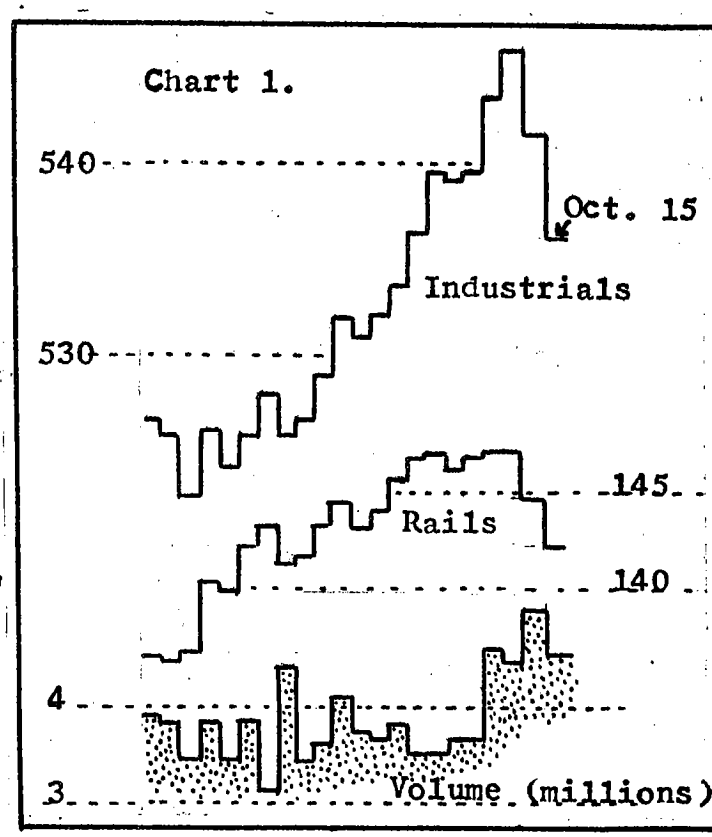
COPYRIGHT 1958 - RICHARD RUSSELL

It is difficult to understand the psychology of the man who, through professional ability and 8 to 11 hours of daily toil, accumulates honest savings; yet, when confronted with investment procedure such as Dow Theory he throws up his hands and says, "Too difficult! I haven't the time." I can promise these otherwise cautious gentlemen that whereas now they may not have the time, later they may not have the money. Those investors who are not capable of mastering principles as simple as Dow's Theory will have to find an easier system or trust to luck. Even my most optimistic readers know through experience what part luck has in making consistent profits in the stock market. As for the easier system, in twelve years of searching I have not found one--that works.

REVIEW OF THE MARKET. During 1953-54 (see chart 2) a recession caused many people to sell their stock and even go short during a great bull market. The primary trend was held back temporarily, but history shows that the greater the consolidation and accumulation period within a bull market, the longer and higher the subsequent advance. The 1953-55 advance broke all records (chart 2). During 1955-58 a series of nerve shattering news events (Eisenhower heart attack, Suez, tight money, recession, Sputnik) caused the crowd to unload a very large portion of their securities. The final violent drop of 1957 wiped out all the gains since early 1955, and many hysterical analysts called a bear market. Dow Theorists know that bear market signals do not come in times of national hysteria when everybody "believes" the "bear signal." The exact opposite is always the case. The advance since October, 1957 is now beginning to look much like the 1953-55 upmove. In my opinion it is entirely possible that we will not get another secondary reaction as violent as the '57 collapse during the entire remainder of this bull market. Last year's reaction was one of the severest in history. It is extremely rare for secondary reactions in the third or boom phase to be as intense as those in the second phase, now completed.

PREDICTIONS FOR THE BOOM. The following are listed as predictions, as warnings, and as a means of verifying the great boom which these letters have been forecasting: (1) At the top people will still say they can't sell because of taxes. (2) Famous economists will declare business on a permanently high plateau and tell us we can never have another depression. (3) Brokerage houses will have standing room only from 10:00 to 3:30. (4) Bosses will warn employees not to waste time in boardrooms. (5) Bosses will waste time in boardrooms. (6) People who are walking the streets today and have never heard of stocks will be avid buyers. (7) Bearishness will be a dirty word. The idea of bull and bear markets will be laughed at. (8) Wall Street will become very fashionable and business figures very important in the public eye. (9) 100% margin will not stop the boom nor will zooming call money. (10) The higher the market goes, the more optimistic the crowd will become. (11) Dow theorists and a few others will recognize a bear signal. (12) The crowd will again be left holding a crashing market. (13) In the end 90% of all stock holders will have lost money. (14) About 60% of the readers of these letters will follow the implications of the averages and sell before or on a bear signal. (15) One political prediction--within one year--this country will recognize Red China and be trading with Russia and China in the biggest way. The preceding sentences are not intended as sarcasm. They are written in all seriousness.

DOW THEORY. Last Sept. 19, I wrote, "If one goes by the implications of the averages, a fabulous period of all-out prosperity is coming." At that time I received a number of phone calls, most of which had to do with questions about my judgement. The judgement, of course, was not mine, it was the average's. The following is from the pages of last week's Wall Street Journal: "National production may climb to the highest level in history by the close of 1958." In a test of my opinion or that of the average's, I will continue to prefer the latter. Last week and this, the industrials surged forward, making new record high after high. The industrials now stand 28% over last year's lows, the rails, an amazing 54%. Readers who have charted the averages, as I have often suggested they do, will have noticed that the rails hit their highs Oct. 7 at 147.54. Since then they have lagged while the industrials surged to new highs. The picture, of course, suggests uncertainty. As often repeated in these letters, a movement of one average without an accompanying move of the other is meaningless and often deceptive. Last Monday we had disagreement or divergence of the two averages as industrials moved to a high and rails sold off 5 cents. On Tuesday, industrials made an interday high, then sold off sharply in great volume along with the lagging rails. Besides the divergence, it seemed also a case of too much company on the bull side. After the rapid run-up of the last few weeks, a test of the market is in order. (Written Oct. 14)



On Tuesday and Wednesday of this week we had two huge volume days (see chart 1) on which industrials sold off a combined ten dollars. The question now becomes, how much further liquidation before support? The next real support area is around 521-5 on the industrials. Below that stands 512 to 501 (the "line" of accumulation.) As a sheer guess, I believe the industrials will not sell below 521. This would make a good decline out of this move, but a perectly normal one, when we consider the almost straight-up, uncorrected move of the last few weeks. If we are to have a real secondary reaction, readers should refer to my last letter for the downside possibilities. (Oct. 15)

STOCKS TO BUY.

THOMPSON PRODUCTS, WESTINGHOUSE, STAND. OIL OF CALIFORNIA, INDIANA, JERSEY, SYLVANIA, WHEELING STEEL, J.I.CASE, ANACONDA, KAISER ALUMINUM, W.R.GRACE.